

The SECURE Act

As part of a larger government spending package, which was signed into law on December 20, 2019, Congress included provisions from the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The act reflects policy changes to defined contribution plans, defined benefit pension plans, individual retirement accounts (IRAs), and 529 college savings accounts. Most provisions in the law go into effect on January 1, 2020.

Here is a summary of some key provisions of the SECURE Act:

Required minimum distributions (RMDs) now begin at age 72

Americans are working longer and will no longer be required to withdraw assets from retirement plans and IRAs at age 70½. RMDs now begin at age 72 for individuals who turn 70½ in the calendar year 2020 and later.

IRA contributions beyond age 70½

As Americans live longer, an increasing number are continuing to work past their traditional retirement age. Under the SECURE Act, employees can continue to contribute to their traditional IRAs past age 70½ if they are still working. That means the rules for traditional IRAs will align more closely with retirement plans.

Long-term, part-time workers will be able to join the company 401(k) plan

Up until now, if an employee worked less than 1,000 hours per year, the employee was generally ineligible to participate in the company's 401(k) plan. Except in the case of collectively bargained plans, the law now requires employers maintaining a 401(k) plan to offer a plan to any employee who worked more than 1,000 hours in one year, or 500 hours over 3 consecutive years. Employer contributions are not required for these employees even if the plan is top-heavy. Although employers need to start tracking these part-time employees, the earliest entry date of these employees will be January 1, 2023.

Increased tax credit for starting a retirement plan, up to \$5,000

The new law provides an increased start-up retirement plan credit for smaller employers of \$250 per non-highly compensated employees eligible to participate in a plan at work (minimum credit of \$500 and maximum credit of \$5,000). This credit would apply to small employers with up to 100 employees over a 3-year period beginning after December 31, 2019 and applies to SEP, SIMPLE, defined contribution plans, and defined benefit plans.

\$5,000 withdrawal per parent penalty-free upon the birth/adoption of a child

The new law permits an individual to take a "qualified birth or adoption distribution" of up to \$5,000 from an applicable defined contribution plan, such as a 401(k) or an IRA. The 10% early withdrawal penalty will not apply to these withdrawals, and you can repay them as a rollover contribution to an applicable eligible defined contribution plan or IRA.

This is a summary of some of the key provisions that affect retirement plans. If you need more information, please contact us at NH Hicks.